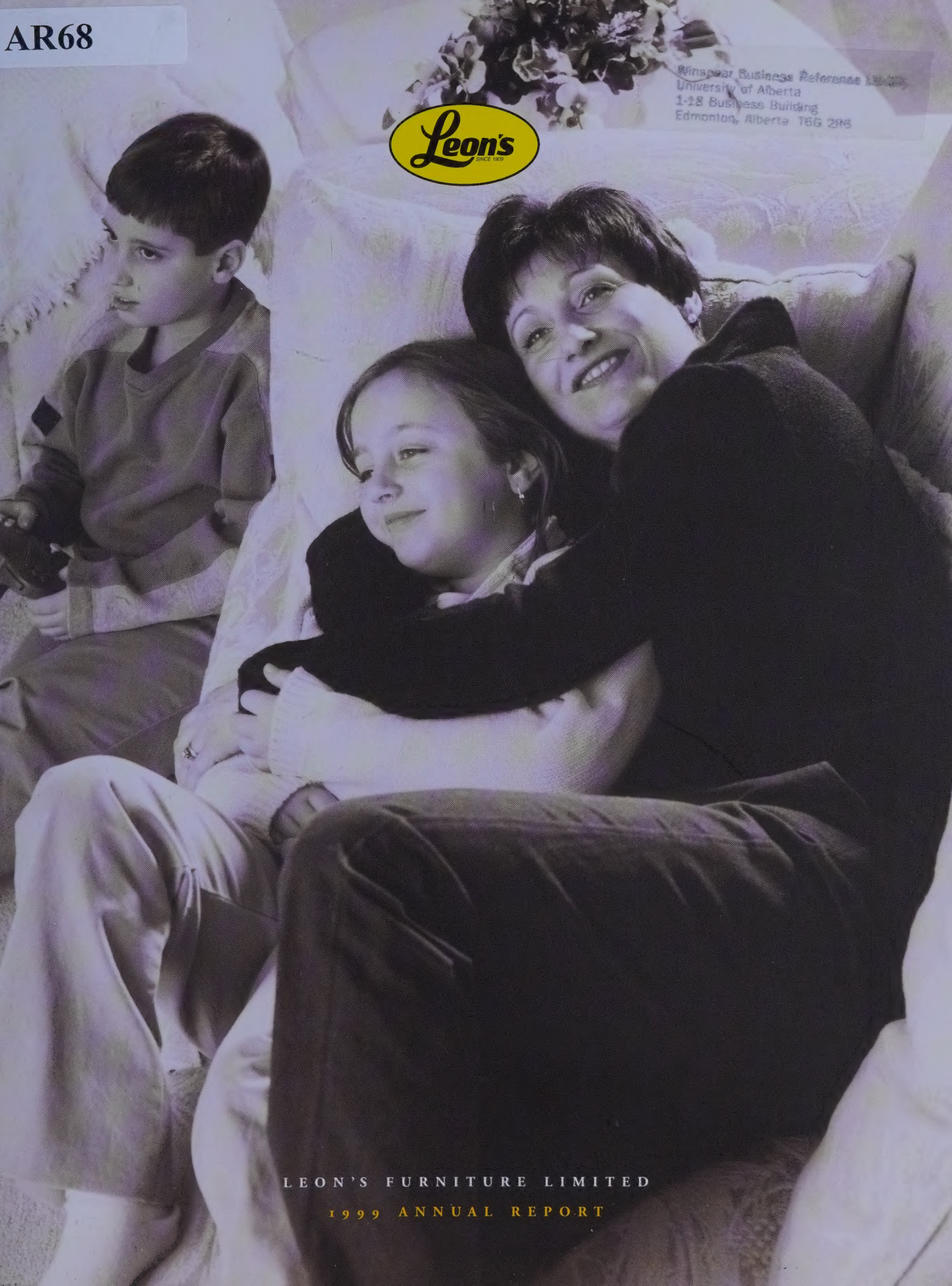


LEON'S FURNITURE LIMITED

1999 ANNUAL REPORT

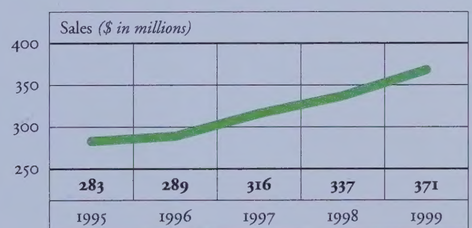
We believe it was very appropriate for our Company to end this past millennium with the most successful year in our long and storied history.

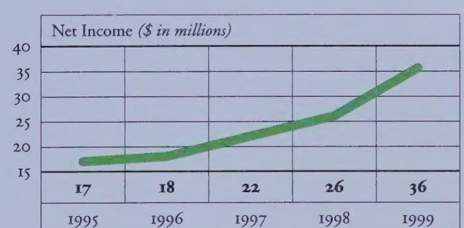
In 1909, our founder, Mr. Ablan Leon harnessed the energy of his entrepreneurial spirit and opened a dry goods store in Welland, Ontario. Although his primary concern was to provide for his growing family, he was blessed with a certain business acumen that allowed him to quickly establish the needs of his customers.

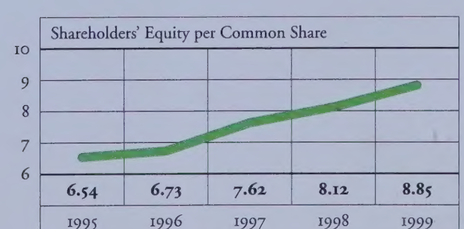
Nearly one hundred years later, the Leon's name has grown to become one of Canada's most highly respected retailers of home furnishings. The descendants of Ablan Leon continue to hold a majority interest in the Company. Even more important, the team of Leon's associates across Canada fully appreciates how our founder's principles of fairness, honesty, loyalty and dedication have provided us with a solid foundation on which we continue to build towards the future.

Financial Highlights

($ in thousands, except per share amounts)	1999	1998	% Change
INCOME			
Sales	**$ 370,825**	$ 336,895	10.1%
Income before income taxes	**64,046**	47,936	33.6%
Income taxes	**27,880**	21,530	29.5%
Net income	**36,166**	26,406	37.0%
Cash flow generated from operations	**34,042**	33,415	1.9%
Dividends paid	**16,305**	5,424	200.6%
PER COMMON SHARE			
Net income	**$ 1.79**	$ 1.31	36.6%
Cash flow generated from operations	**1.69**	1.64	3.0%
Dividends paid	**.81**	.27	200.0%
Shareholders' equity at year end	**8.85**	8.12	9.0%







Welcome


Leon's
OPEN
STORE HOURS
MON. - FRI. 9:30 a.m. - 9:30 p.m.
SAT. 9:00 a.m. - 6:00 p.m.
SUN. 11:00 a.m. - 5:00 p.m.
2

President's Message

We are very pleased to report that our sales in 1999 were $370,825,000, compared to $336,895,000 in 1998, an increase of 10.1%. Our net income was $36,166,000 or $1.79 per share in 1999, compared to $26,406,000 or $1.31 per share in 1998. This represents an increase of 37%. Total revenues for the Company, including franchise sales, amounted to $483,000,000 in 1999.

Once again, we are proud to state that 1999 shattered all our records for both sales and profits. Our net income, as a percentage of sales, increased to the highest levels in our long history.

There is no doubt that we have benefited from a stronger Canadian economy over the last four years. However, we believe that our commitment to the long-term stability of our organization, combined with industry leading skills in merchandising and marketing, continue to set Leon's apart from all other retailers.

As a Company with sales of nearly half a billion dollars and completely free of debt, we are faced with both exciting opportunities and unique challenges.

Our enviable financial position would allow for a very aggressive growth plan through either expansion or acquisition. However, we believe that our historically pragmatic approach, of both capturing and maintaining increased market share, has been critical to our continuing success in both good times and bad. In fact, our consistent yet cautious growth has been the primary reason for our long history of financial stability. The importance we place on our bottom line continues to take precedence over the temptation of generating sales numbers that may not meet our high standards of profitability.

The new warehouse showroom superstores opened this past year in London and Barrie, Ontario, have exceeded even the most optimistic sales targets. Construction is underway for a massive new facility in Montreal and plans are being finalized for similar facilities in Red Deer, Alberta and St. Catharines, Ontario.

Finally, unless someone worked in our organization, it would be difficult to describe the corporate culture that exists at Leon's. We are all part of a family that truly cares for each other. We respect our fellow workers and sincerely appreciate their efforts. We are very proud of our entire team and on behalf of our Board of Directors, our Shareholders and our Customers, we thank you all for making 1999 a year to remember.

Five-year Review

INCOME STATISTICS

($ in thousands, except earnings per share)	**1999**	1998	1997	1996	1995
Sales	**$ 370,825**	$ 336,895	$ 315,817	$ 289,241	$ 282,503
Cost of sales	**217,643**	199,369	187,680	173,271	169,252
Gross profit	**153,182**	137,526	128,137	115,970	113,251
Operating expenses (net of interest and sundry income)	**81,694**	78,312	77,675	74,299	72,383
Rent and property taxes	**6,847**	6,518	5,207	4,918	4,744
Depreciation and amortization	**6,401**	5,649	5,483	4,304	4,598
Interest on long-term debt	**2**	19	33	48	171
	94,944	90,498	88,398	83,569	81,896
Income before gain on sale of U.S. property and income taxes	**58,238**	47,028	39,739	32,401	31,355
Gain on sale of U. S. property	**5,808**	908	–	–	–
Income before income taxes	**64,046**	47,936	39,739	32,401	31,355
Income taxes	**27,880**	21,530	18,104	14,747	14,097
Net income	**$ 36,166**	$ 26,406	$ 21,635	$ 17,654	$ 17,258
Common shares outstanding (000's) (weighted average)	**20,151**	20,098	19,987	19,861	19,763
Earnings per common share	**$ 1.79**	$ 1.31	$ 1.08	$ 0.89	$ 0.87
Percent annual increase in sales	**10.1%**	6.7%	9.2%	2.4%	5.1%
Net income as a percentage of sales	**9.8%**	7.8%	6.9%	6.1%	6.1%
Dividends declared	**$ 21,960**	$ 15,787	$ 4,471	$ 13,952	$ 4,012

BALANCE SHEET STATISTICS

($ in thousands, except earnings per share)	**1999**	1998	1997	1996	1995
Shareholders' equity	**$ 178,313**	$ 163,917	$ 152,315	$ 133,804	$ 129,690
Total assets	**268,581**	245,270	217,641	193,089	177,774
Additions to fixed assets	**19,114**	14,714	7,155	18,958	7,936
Decrease in long-term debt	**(70)**	(196)	(180)	(164)	(1,141)
Working capital	**78,324**	75,259	70,895	54,819	65,808
Current ratio	**1.9:1**	1.9:1	2.1:1	1.9:1	2.4:1
Shareholders' equity per common share	**$ 8.85**	$ 8.16	$ 7.62	$ 6.73	$ 6.54
Common share price range on the Toronto Stock Exchange					
High	**$ 24.70**	$ 22.10	$ 22.00	$ 13.45	$ 13.50
Low	**$ 16.50**	$ 16.25	$ 12.75	$ 11.50	$ 9.75


Discover

Defined Market

Our Company has always believed that a certain amount of discipline is absolutely necessary in order to succeed in the retail battlefield. That discipline permeates through every part of our organization.

First and foremost, we try to understand who we want to be from the perspective of the consumer. Many retailers run into problems when they try to be all things to all people. As a result, they create confusion in their marketplace and their customer's loyalty begins to erode.

Since 1909, we have made every effort to provide Canadians with the products and services that help transform their home environment into a haven of comfort. Our wide and varied selection of furniture, major appliances and home entertainment, gives our customers more choice than they can find anywhere else. Our guaranteed lowest prices, consumer friendly service, and multi-million dollar on hand inventory, have helped make Leon's the logical choice for home furnishings.

However, we also understand that successful corporations must be very cautious about the pitfalls of complacency and self-satisfaction. In order for success to have any chance of continuing, organizations must never stop evolving, growing and improving.

Our Company, for example, has just enjoyed the most profitable year in our history. Yet, we recognize that much of what we do can be done even better.

Critical components of our profitability have been our marketing, merchandising, systems/procedures and our human resources. Although our expertise in these areas are both praised and emulated by others, we recognize that we have significant opportunities to reinforce and revitalize these cornerstones of our past success.

Our marketing has grown to become one of Leon's greatest assets. The significant ongoing investment in the television medium has made Leon's a household name. Our award winning television commercials provide our customers with a refreshing mix of humour and product information. Our newspaper advertisements, colour flyers and in-store material present our customers with factual, meaningful and effective information.

Own


Dream

One of the greatest challenges facing a retailer of home furnishings, is to purchase and display a wide selection of merchandise in a pleasant environment at a competitive price. Our Company is continually devising new methods of receiving, shipping and displaying our products. Our new showrooms are a reflection of all that we have learned over many years. Yet, we are never satisfied that we cannot be better, and as a result, every new facility continues to evolve.

Our Company feels obligated to provide our customers with an inviting, comfortable and professional atmosphere that helps make their shopping experience as pleasant as possible. A multi-million dollar renovation to our largest facility in Scarborough, Ontario, is nearing completion. This massive project, the first of many for our older properties, is a clear demonstration of our commitment to the future.

The systems and procedures of our corporation have continued to provide us with control of our assets, as well as the accumulation of any information necessary, to make sound business decisions. Our ability to process information in an efficient manner, allows us to measure our productivity and to aim for even higher standards. Technological innovations such as bar coded labels and hand held wireless scanners are now being developed. We believe that these advancements will further enhance our profitability.

We have often said that the success of our Company goes well beyond bricks and mortar. The family of associates, who are members of Leon's workforce, represent some of the most loyal, dedicated and professional people in the entire country. As associates of Leon's, we are very proud of where our Company has come from, what we stand for, and where we are going in the future. Our culture of mutual respect, co-operation, fairness and objectivity have created an atmosphere of caring that permeates throughout our entire organization.

Our Company has never taken our success for granted. Throughout our history, we feel that we have been blessed in many ways. We truly hope that our continued hard work, thoughtful decision-making and sincere gratitude for all that we have been given, will lead to future blessings as well.

Nationwide Locations

ALBERTA

Calgary

Edmonton

Medicine Hat*

SASKATCHEWAN

Prince Albert*

MANITOBA

Brandon*

Winnipeg

ONTARIO

Barrie

Bracebridge*

Brockville*

Burlington

Chatham*

Cornwall*

Huntsville*

Kapuskasing*

Kingston*

Kitchener

London

Mississauga

North Bay*

Orillia*

Ottawa (2)

Owen Sound*

Peterborough*

Richmond Hill

Sarnia*

Sault Ste. Marie

St. Catharines

Sudbury

Thunder Bay*

Toronto (3)

Trenton*

Welland

Windsor

Whitby

QUEBEC

Greenfield Park**

Laval

Ste. Foy**

Vanier**

NEW BRUNSWICK

Fredericton*

Moncton*

Saint John*

PRINCE EDWARD ISLAND

Charlottetown*

NOVA SCOTIA

Dartmouth

Kentville*

NEWFOUNDLAND

St. John's*

Franchise premises Leased premises** All other premises are Company owned*

Management's Discussion and Analysis

RESULTS OF OPERATIONS

General

For the year ended December 31, 1999, sales were $370,825,000 compared to $336,895,000 in 1998, resulting in a 10.1% increase. Net income was $36,166,000 or $1.79 per common share compared to $26,406,000 or $1.31 per common share in 1998, an increase of 37%. Total Leon's sales, including $112,489,000 of sales by franchises, amounted to approximately $483,314,000.

Overall, we are very satisfied with the increase in sales and profits over the past year. We believe that our aggressive approach in the areas of merchandising and marketing has allowed us to gain market share in various regions. In addition, we are pleased with the successful opening of our new stores in London, which opened in May 1999, and Barrie, which opened in October 1999. We expect our growth to continue as we add new stores and enhance our efforts to increase our share in existing markets. New superstores in Montreal, Quebec, Red Deer, Alberta and St. Catharines, Ontario are scheduled to open in 2000. We also anticipate an increase in market share which should result from extensive renovations taking place in our existing Toronto area warehouse and showrooms.

We are pleased to report that our overall expenses remained constant during 1999. We believe even further efficiencies will arise in 2000 as we continue to adapt to our new computer systems.

Franchise Operations

Sales by franchises were $112,489,000 in 1999, an increase of 10.7% over the prior year. We believe that our corporate team involved with our franchise division is stronger and more committed than ever. At the end of 1999, the Company had a total of 22 franchisees operating 23 franchise stores. We will continue to seek qualified franchisees to join this successful division. As always, we must try to ensure that future potential candidates possess the character, skills and resources necessary to be a member of this successful team.

Foreign Operations

Our Arizona operations were discontinued as of May 1997. One of our two U.S. properties was sold in 1998 at a pre-tax gain of $908,000 and the remaining property was sold in 1999 at a pre-tax gain of $5,808,000.

Liquidity and Capital Resources

During the year, the Company's cash and investment position improved by $7,039,000 to $108,124,000 at December 31, 1999. Future expansion and renovations referred to above for the year 2000, will be financed from the Company's existing cash resources.

Management's Responsibility for The Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in the annual report is consistent with that in the financial statements.

Leon's Furniture Limited (Leon's) maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Leon's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the financial statements and annual report, considers the report of the external auditors, assesses the adequacy of the internal controls of the company, examines the fees and expenses for audit services, and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

Mark J. Leon
President and C.E.O.
February 17, 2000

Dominic Scarangella
Treasurer and Controller

Auditors' Report

To the Shareholders of Leon's Furniture Limited - Meubles Leon Ltée

We have audited the consolidated balance sheets of Leon's Furniture Limited - Meubles Leon Ltée as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada,

February 10, 2000

Consolidated Balance Sheets

As at December 31 ($ in thousands)	**1999**	1998
ASSETS		
Current		
Cash and cash equivalents	**$ 22,020**	$ 10,294
Marketable securities	**86,104**	90,791
Accounts receivable	**10,798**	9,228
Inventory	**49,634**	46,271
Total current assets	**168,556**	156,584
Deferred income taxes	**4,561**	4,177
Fixed assets, net *[note 2]*	**95,464**	84,509
	$ 268,581	$ 245,270
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 62,019**	$ 61,328
Income taxes payable	**6,188**	3,969
Customers' deposits	**4,900**	4,393
Dividends payable	**17,125**	11,565
Current portion of long-term debt	**—**	70
Total current liabilities	**90,232**	81,325
Redeemable share liability *[note 7]*	**36**	28
Total liabilities	**90,268**	81,353
Shareholders' equity		
Common shares *[note 8]*	**7,404**	6,241
Retained earnings	**170,909**	156,703
Currency translation adjustment	**—**	973
Total shareholders' equity	**178,313**	163,917
	$ 268,581	$ 245,270

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31 *($ in thousands, except shares outstanding and earnings per share)*	**1999**	1998
Sales	**$ 370,825**	$ 336,895
Cost of sales	**217,643**	199,369
Gross profit	**153,182**	137,526
Operating expenses (income)		
Salaries and commissions	**52,907**	49,870
Advertising	**22,612**	21,704
Depreciation and amortization	**6,401**	5,649
Rent and property taxes	**6,847**	6,518
Employee profit-sharing plan	**1,997**	1,770
Interest on long-term debt	**2**	19
Other operating expenses	**19,018**	17,852
Interest income	**(4,675)**	(4,440)
Other income	**(10,165)**	(8,444)
	94,944	90,498
Income before gain on sale of U.S. property and income taxes	**58,238**	47,028
Gain on sale of U.S. property *[note 9]*	**5,808**	908
Income before income taxes	**64,046**	47,936
Provision for income taxes *[note 3]*	**27,880**	21,530
Net income for the year	**36,166**	26,406
Retained earnings, beginning of year	**156,703**	146,084
Dividends declared	**(21,960)**	(15,787)
Retained earnings, end of year	**$ 170,909**	$ 156,703
Weighted average number of common shares outstanding		
Basic	**20,150,533**	20,098,004
Fully diluted	**20,920,418**	20,683,837
Earnings per share		
Basic	**$ 1.79**	$ 1.31
Fully diluted	**$ 1.73**	$ 1.27

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 *($ in thousands)*	**1999**	1998
		[restated - note 6]
OPERATING ACTIVITIES		
Net income for the year	**$ 36,166**	$ 26,406
Add (deduct) items not involving a current cash payment		
Depreciation and amortization	**6,401**	5,649
Deferred income taxes	**(384)**	(542)
Gain on disposal of fixed assets	**(5,726)**	(989)
Loss on sale of marketable securities	**74**	29
Currency translation adjustment	**(973)**	380
	35,558	30,933
Net change in non-cash working capital balances related to operations *[note 6]*	**(1,516)**	2,482
Cash provided by operating activities	**34,042**	33,415
INVESTING ACTIVITIES		
Purchase of fixed assets	**(19,114)**	(14,714)
Proceeds on sale of fixed assets	**7,484**	3,517
Purchase of marketable securities	**(1,642,524)**	(2,084,676)
Proceeds on sale of marketable securities	**1,647,137**	2,043,555
Decrease in employee share purchase loans *[note 7]*	**1,076**	542
Cash used in investing activities	**(5,941)**	(51,776)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(70)**	(196)
Dividends paid	**(16,305)**	(5,424)
Cash used in financing activities	**(16,375)**	(5,620)
Net increase (decrease) in cash and cash equivalents during the year	**11,726**	(23,981)
Cash and cash equivalents, beginning of year	**10,294**	34,275
Cash and cash equivalents, end of year	**$ 22,020**	$ 10,294

See accompanying notes

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Leon's Furniture Limited - Meubles Leon Ltée [the "Company"] have been prepared by management in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign exchange translation

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt. United States dollar accounts payable are translated at the year-end exchange rate. Gains and losses resulting from translation of United States dollar accounts payable are included in income.

Assets and liabilities of United States operations are translated into Canadian dollars at the year-end exchange rate. Revenue and expenses are translated at average quarterly rates. Gains or losses resulting from translation of these operations are deferred and included as a separate component of shareholders' equity *[note 9]*.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than ninety days.

Marketable securities

Marketable securities, which consist primarily of bonds with maturities not exceeding five years and an interest rate range of 4.5% to 8.2%, are stated at the lower of cost and market value. Market value approximated cost at December 31, 1999 and 1998.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value less normal profit margin.

Fixed assets

Fixed assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and bases:

Buildings	5% straight-line
Equipment	20% to 30% declining balance
Vehicles	30% declining balance
Computer hardware and software	14% straight-line
Leasehold improvements	Over the terms of the leases to a maximum of 15 years

Store pre-opening costs

Store pre-opening costs are expensed as incurred.

Income taxes

The Company follows the deferral method of income tax allocation to provide for income taxes. Under this method, timing differences between reported and taxable income [which occur when revenue and expenses recognized in the accounts in one year are taxed or claimed for income tax purposes in another year] result in deferred income taxes.

Fair value of financial instruments

The fair value of financial instruments held by the Company, comprising cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, customers' deposits, employee share purchase loans, long-term debt and redeemable shares, approximate their carrying values in these consolidated financial statements, due to their short-term nature.

2. FIXED ASSETS

Fixed assets consist of the following:

	1999			1998		
($ in thousands)	**Cost ($)**	**Accumulated depreciation and amortization ($)**	**Net book value ($)**	Cost ($)	Accumulated depreciation and amortization ($)	Net book value ($)
Land	**32,563**	**—**	**32,563**	31,539	—	31,539
Buildings	**88,859**	**40,525**	**48,334**	84,397	40,167	44,230
Equipment	**12,469**	**8,204**	**4,265**	12,271	8,121	4,150
Vehicles	**11,058**	**8,849**	**2,209**	9,879	8,189	1,690
Computer hardware and software	**5,547**	**3,537**	**2,010**	5,469	3,043	2,426
Leasehold improvements	**10,348**	**4,265**	**6,083**	4,743	4,269	474
	160,844	**65,380**	**95,464**	148,298	63,789	84,509

Included in the above balances are assets not being depreciated with book values of approximately $6,200,000 [1998 - $9,000,000] due to construction in progress.

3. PROVISION FOR INCOME TAXES

The Company's provision for income taxes consists of the following:

	1999		1998	
($ in thousands)	**($)**	**(%)**	($)	(%)
Provision based on combined basic				
Canadian federal and provincial tax rates	**28,821**	**45.0**	21,236	44.3
Net foreign income tax rate differential	**(1,131)**	**(1.8)**	—	—
Other items	**190**	**0.3**	294	0.6
	27,880	**43.5**	21,530	44.9

4. COMMITMENTS

The estimated cost to complete construction in progress at one location amounted to approximately $5,700,000 at December 31, 1999 [1998 - $5,450,000].

The Company is obligated under operating leases to future minimum annual rental payments for land and buildings. The leases expire at varying dates as follows:

	($)
2000	1,312,000
2001	1,233,000
2002	805,000
2003	31,000
	3,381,000

5. FRANCHISE OPERATIONS

At December 31, 1999, a total of twenty-two franchises were in operation representing twenty-three stores. Sales by franchise stores during the year ended December 31, 1999, on which the Company earns royalty income, amounted to $112,489,000 [1998 - $101,588,000].

6. CONSOLIDATED STATEMENTS OF CASH FLOWS

During the year, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants with respect to the presentation of the consolidated statements of cash flows. This change, which has revised the definition of cash and cash equivalents and removed non-cash transactions from the consolidated statements of cash flows, has been applied retroactively in these consolidated financial statements. The impact of this change has been to increase cash used in investing activities by $169,000 and to increase cash used in investing activities by $33,288,000 for the fiscal years ended December 31, 1999 and 1998, respectively. The impact of this change also has been to decrease cash used in financing activities by $95,000 and to increase cash used in financing activities by $5,224,000 for the fiscal years ended December 31, 1999 and 1998, respectively. In addition, the change in definition of cash and cash equivalents to include only cash and highly liquid investments has resulted in the reduction of cash and cash equivalents by $44,278,000 and $53,395,000 for the years ended December 31, 1999 and 1998, respectively.

[a] The net change in non-cash working capital balances related to operations consists of the following:

($ in thousands)	**1999** **($)**	1998 ($)
Accounts receivable	**(1,570)**	(914)
Inventory	**(3,363)**	(2,525)
Accounts payable and accrued liabilities	**691**	4,685
Income taxes payable	**2,219**	272
Customers' deposits	**507**	964
	(1,516)	2,482

[b] Interest and income taxes paid:

($ in thousands)	**1999** **($)**	1998 ($)
Income taxes paid	**26,061**	22,284
Interest paid	**250**	3
	26,311	22,287

[c] Issuance of preferred shares:

In 1998, the Company issued convertible, non-voting series 1998 shares for $5,350,000. The Company provided employees with share purchase loans to offset the amount owing on the preferred shares. Dividends paid to preferred shareholders have been used to reduce the respective shareholder loans.

7. REDEEMABLE SHARE LIABILITY

($ in thousands)	**1999** **($)**	1998 ($)
Authorized		
980,000 convertible, non-voting, series 1990 shares		
89,400 convertible, non-voting, series 1994 shares		
350,000 convertible, non-voting, series 1998 shares		
Issued		
291,202 series 1990 shares [1998 - 423,341] *[note 8]*	**2,155**	3,133
56,974 series 1994 shares [1998 - 71,467] *[note 8]*	**725**	910
304,000 series 1998 shares	**5,350**	5,350
Less employee share purchase loans	**(8,194)**	(9,365)
	36	28

Under the terms of its Management Share Purchase Plan, the Company advanced non-interest bearing loans to certain of its employees in 1990, 1994 and 1998 to allow them to acquire convertible, non-voting, series 1990 shares, series 1994 shares and series 1998 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares, with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for series 1990, 1994 and 1998 share may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each share may also be redeemed at the option of the holder or by the Company at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The adjusted average purchase prices of the shares are $7.40 per series 1990 share, $12.73 per series 1994 share and $17.60 per series 1998 share.

During the year ended December 31, 1998, the Company issued 304,000 convertible, non-voting series 1998 shares for $5,350,000 and purchased and cancelled 4,383 series 1994 shares for $55,800. During the year ended December 31, 1999, the Company did not issue or cancel any shares.

Employee share purchase loans have been netted against the redeemable share liability based upon their terms.

8. COMMON SHARES

The Company's common shares consist of the following:

($ in thousands)	**1999** **($)**	1998 ($)
Authorized		
Unlimited common shares		
Issued		
20,268,242 common shares [1998 - 20,121,610]	**7,404**	6,241

During the year ended December 31, 1999, 132,139 convertible, non-voting, series 1990 shares [1998 - 81,523] and 14,493 convertible, non-voting series 1994 shares [1998 - nil] were converted into common shares with a stated value of $977,829 [1998 - $603,270] and $184,496 [1998 - nil], respectively.

9. LIQUIDATION OF U.S. OPERATIONS

The Company's retail operations in the U.S. were discontinued during 1997. In fiscal 1998 and 1999, the Company's U.S. subsidiaries were liquidated. The sale of the related fixed assets resulted in proceeds of $7,400,000 [1998 - $3,500,000] and a corresponding gain of $5,808,000 [1998 - $908,000].

10. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated 1998 financial statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 1999 consolidated financial statements.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date to the year 2000 has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.

Corporate and Shareholders Information

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Ernst & Young LLP
Chartered Accountants
Toronto

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Toronto

LISTING

Leon's shares are listed on
the Toronto Stock Exchange
Ticker Symbol is LNF

BOARD OF DIRECTORS

Anthony T. Leon
Toronto

Edward M. Leon
Thornhill

Joseph M. Leon
Doctor of Medicine
Welland

Mark J. Leon
Toronto

Peter B. Eby
Private Investor

Alan J. Lenczner
Barrister, Partner
in Lenczner Slaght
Royce Smith Griffen

T. Iain Ronald
Private Investor

OFFICERS

Anthony T. Leon
Chairman of the Board

Edward M. Leon
Vice-Chairman

Mark J. Leon
President and CEO

Terrence T. Leon
Vice President,
Secretary and CFO

Dominic Scarangella
Treasurer and Controller

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